



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

February 16, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Palo, Iowa for the period July 1, 2016 through June 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. In addition, the City should comply with Chapter 384.20 of the Code of Iowa and include financial activity and balances for all City accounts in the City's accounting records.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1721-0549-BLOF>.

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CITY OF PALO
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

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City of Palo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Yock	Mayor	Jan 2018
Thomas Sanders	Mayor Pro-Tem	Jan 2018
Doug Hanover	Council Member	Jan 2018
Delmar Jellison	Council Member	Jan 2018
Brian Beaty	Council Member	Jan 2020
Ryan Scheckel	Council Member	Jan 2020
Trisca Dix	City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite

City of Palo



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Palo for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Palo's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Palo during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

January 22, 2018

Detailed Recommendations

City of Palo

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Utilities – billing, collecting, depositing and posting.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Journal entries – preparing and recording.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City maintains a monthly reconciliation of utility billings, collections and delinquent accounts produced by the utility system, the individual components are not reconciled to the City's general ledger, billing register, bank account and delinquent account listings.

Recommendation – The City should reconcile the individual components of the system run monthly reconciliation to the City's general ledger, billing register, bank account and delinquent account listings. The City Council or other independent person designated by the City Council should review the utility reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (C) City Council Meeting Minutes – Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. In addition, the City did not publish a summary of receipts as required by the Code of Iowa.

Also, wage increases were approved based upon a percentage increase and the actual approved wages and hourly rates were not documented in the City Council meeting minutes.

Recommendation – The City should publish minutes within fifteen days after a City Council meeting, including a summary of receipts, as required. Also, actual approved wages and hourly rates should be documented in the City Council meeting minutes.

City of Palo

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (D) Separately Maintained Records – The City of Palo Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.
- Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.
- (E) Financial Condition – At June 30, 2017, the City had deficit balances in the Capital Projects and Special Revenue, FEMA Funds of \$211,381 and \$235,090, respectively.
- Recommendation – The City Council should continue to investigate alternatives to eliminate these deficits to return the funds to a sound financial position.
- (F) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the capital projects functions. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the public safety, capital projects, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”
- Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- (G) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was approved and certified to the Iowa Department of Management on or before December 1. However, the following reporting exceptions were noted:
- The City’s disbursements and ending cash balance of the Special Revenue, TIF and Urban Renewal Fund reported on the Levy Authority Summary do not agree with the City’s general ledger. Total disbursements and ending cash balance on the AURR were overstated by \$62,874 and \$90,131, respectively when compared to the City’s General Ledger and Annual Financial Report. Also, the TIF Debt Outstanding reported in the Levy Authority Summary was overstated by \$49,380.
- Recommendation – The City should ensure the amounts reported in the Levy Authority Summary agree with and are supported by the City’s records.
- (H) Senior Discount – Section 388.6 of the Code of Iowa states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91.” Senior citizen discounts on utility bills were provided by the City Council.
- Recommendation – The City should not provide discounted utility rates to any customers, including senior citizens, in accordance with Chapter 388.6 of the Code of Iowa.

City of Palo

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager
Jesse J. Harthan, Senior Auditor
Justin D. Jones, Assistant Auditor


Marlys K. Gaston, CPA
Director